SaskTel

Financial Statements of

SASKATCHEWAN TELECOMMUNICATIONS

December 31, 2006

KPMG

KPMG LLP
Chartered Accountants
2000 - 1881 Scarth Street
Regina SK S4P 4K9

Telephone (306) 791-1200
Fax (306) 757-4703
Internet www.kpmg.ca

AUDITORS' REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the statement of financial position of Saskatchewan Telecommunications as at December 31, 2006 and the statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada
February 21, 2007

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

Statement of Operations

For the year ended December 31, (Thousands of dollars)	2006	2005 (Note 3)
Operating revenues	**$920,053**	$899,083
Operating expenses		
Operations	**656,657**	637,943
Depreciation and amortization	**141,732**	139,480
Restructuring charges (Note 5)	**55,009**	40,915
Write-down of long-lived assets	**-**	15,282
	853,398	833,620
Income from operations	**66,655**	65,463
Other items (Note 6)	**3,470**	2,429
Interest and related costs (Note 7)	**(24,125)**	(22,527)
Net income	**$46,000**	$45,365

See Accompanying Notes

Statement of Retained Earnings

For the year ended December 31, (Thousands of dollars)	2006	2005 (Note 3)
Retained earnings, beginning of year	**$167,481**	$182,261
Net income	**46,000**	45,365
	213,481	227,626
Dividends	**38,000**	60,145
Retained earnings, end of year	**$175,481**	$167,481

See Accompanying Notes

Saskatchewan Telecommunications

Statement of Financial Position

As at December 31, (Thousands of dollars)	2006	2005 (Note 3)
Assets		
Current assets		
Cash and short-term investments	$ -	$2,497
Accounts receivable (Note 14a)	89,636	93,773
Inventories	6,004	5,618
Prepaid expenses (Note 14a)	10,193	7,119
	105,833	109,007
Property, plant and equipment (Note 8)	897,564	814,529
Other assets (Note 9)	56,701	63,768
	$1,060,098	$987,304
Liabilities and Province's equity		
Current liabilities		
Bank indebtedness	$7,966	$6,875
Accounts payable and accrued liabilities (Note 14a)	136,221	138,015
Dividend payable	8,960	9,404
Services billed in advance (Note 14a)	40,674	36,458
Current portion of long-term debt (Note 10)	15,959	37,040
	209,780	227,792
Deferred revenue	10,415	9,651
Notes payable (Note 11)	129,521	30,531
Long-term debt (Note 10)	199,329	217,277
	549,045	485,251
Province of Saskatchewan's equity		
Equity advances (Note 12)	335,572	334,572
Retained earnings	175,481	167,481
	511,053	502,053
	$1,060,098	$987,304

See Accompanying Notes

On behalf of the Board

Robert Watson

Mike Anderson

Saskatchewan Telecommunications

Statement of Cash Flows

For the year ended December 31, (Thousands of dollars)	2006	2005 (Note 3)
Operating activities		
Net income	**$46,000**	$45,365
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization	**141,732**	139,480
Pension expense of defined benefit plan	**331**	8,796
Special termination benefits cost (Note 16)	**43,399**	29,666
Contributions to defined benefit pension plans	**(35,442)**	(36,947)
Sinking fund earnings	**(2,084)**	(2,957)
Service recognition defined benefit program curtailment	**-**	7,452
Write-down of long-lived assets	**-**	15,282
Other	**(241)**	772
Net change in non-cash working capital (Note 14b)	**4,000**	(50,305)
Cash provided by operating activities	**197,695**	156,604
Investing activities		
Property, plant and equipment expenditures	**(224,560)**	(136,557)
Other assets	**-**	1,921
Cash used in investing activities	**(224,560)**	(134,636)
Financing activities		
Increase in notes payable to Holdco	**98,991**	60,325
Equity advance from Holdco	**1,000**	11,500
Repayment of long-term debt	**(34,483)**	(2,373)
Capital lease obligations	**(2,462)**	(2,974)
Dividends paid	**(38,444)**	(83,308)
Financing leases	**(1,325)**	(1,092)
Cash provided by (used in) financing activities	**23,277**	(17,922)
Increase (decrease) in cash	**(3,588)**	4,046
Cash and cash equivalents, beginning of year	**(4,378)**	(8,424)
Cash and cash equivalents, end of year	**$(7,966)**	$(4,378)
Comprised of:		
Cash and short-term investments	**$ -**	$2,497
Bank indebtedness	**(7,966)**	(6,875)
	$(7,966)	$(4,378)

See Accompanying Notes

Notes to Financial Statements

Note 1 – The Corporation

Saskatchewan Telecommunications (the Corporation) markets and supplies a range of voice, data, internet, wireless, text, image and entertainment products, systems and services. The Corporation is a Saskatchewan Provincial Crown corporation operating under the authority of *The Saskatchewan Telecommunications Act* and, as such, the Corporation is not subject to Federal or Provincial income taxes in Canada.

The Canadian Radio-television and Telecommunications Commission (CRTC) regulates the Corporation under the *Telecommunications Act* (Canada).

By virtue of *The Crown Corporations Act, 1993*, the Corporation has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of the Corporation are included in the financial statements of CIC, a Provincial Crown corporation, through consolidation with Saskatchewan Telecommunications Holding Corporation (Holdco).

Note 2 – Summary of significant accounting policies

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Cash and short-term investments

Cash and short-term investments include interest bearing investments with Holdco that are due on demand and are stated at cost which approximates fair value.

Inventories

Materials, supplies and inventories are recorded at the lower of cost and net realizable value. Cost is determined using an average-cost basis.

Property, plant and equipment

Property, plant and equipment is recorded at cost including materials, services and direct labour.

Depreciation and amortization on property, plant and equipment is computed on the straight-line basis, using rates determined by a continuing program of engineering studies for each class of property in service.

Asset	Estimated useful life
Buildings	20 - 35 years
Plant and equipment	2 - 50 years
Office furniture, equipment and leaseholds	3 - 17 years

With respect to property, plant and equipment acquired and constructed or developed over time, the Corporation follows the policy of capitalizing related equipment, construction and installation costs, including direct labour, as plant under construction. These costs are then depreciated and amortized on a

Notes to Financial Statements

Note 2 – Summary of significant accounting policies, continued

basis consistent with the Corporation's depreciation and amortization policy from the date the asset is substantially completed and put into productive use.

Impairment of long-lived assets

Long-lived assets, including property, plant and equipment, are amortized over their useful lives. The Corporation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized on a long-lived asset to be held and used when its carrying value exceeds the total undiscounted cash flows expected from its use and eventual disposal. The amount of loss recorded is determined by deducting the asset's fair value (based on discounted cash flows from its use and disposition) from its carrying value.

Asset retirement obligations

Legal obligations associated with the retirement of property, plant and equipment are initially measured at fair value and are adjusted for any changes resulting from the passage of time and any changes to the timing or amount of the original estimate of undiscounted cash flows. The asset retirement cost is capitalized as part of the related asset and is amortized into earnings over the asset's useful life. There were no significant asset retirement obligations as at December 31, 2006.

Intangible assets

Intangible assets are recorded at cost of acquisition or development, including where applicable direct development costs, overhead costs directly attributable to development activity and betterment costs. Intangible assets with a finite useful life are amortized using the straight-line method at rates that will reduce the cost to any estimated residual value over the estimated useful life.

Asset	Estimated useful life
Spectrum licenses	3 - 10 years

Intangible assets with a finite life are tested for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. They are written down to fair value when the related undiscounted cash flows are not expected to allow for recovery of the carrying value.

Revenue recognition

Revenues are recognized in the period the services are provided when there is clear proof that an arrangement exists, amounts are determinable and the ability to collect is reasonably assured. Revenues from local telecommunications, data, internet, entertainment and security services are recognized based on access to the Corporation's network and facilities at the rate plans in effect during the period the service is provided. Certain service connection charges and activation fees, along with corresponding direct costs are deferred and recognized over the average expected term of the customer relationship. Revenues from long distance and wireless airtime are recognized based on the usage or rate plans in the period service is provided. Revenues from equipment sales are recognized when the equipment is

Notes to Financial Statements

Note 2 – Summary of significant accounting policies, continued

delivered to and accepted by the customer. Revenues for longer term contracts are recognized based on a percentage of completion. Payments received in advance are recorded as deferred revenue until the product or service is delivered.

Customer solutions may involve the delivery of multiple services and products that occur at different points and over different periods of time. The multiple services are separated into their respective accounting units and consideration is allocated among the accounting units. The relevant revenue recognition policies are applied to each accounting unit.

The CRTC has established a National Subsidy Fund to subsidize Local Exchange Carriers (LECs), like the Corporation, that provide service to residential customers located in high cost service areas (HCSAs). The CRTC has set the rate per line and band for all LECs. The Corporation recognizes the revenue on an annual basis by applying the rate to the number of residential network access lines served during the period in HCSAs.

Employee future benefits

The Corporation has: a defined benefit pension plan (a), a defined contribution pension plan (b), and a service recognition defined benefit plan (c).

a) Defined benefit pension plan
The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets. The Corporation has adopted the following policies related to the defined benefit plan:

The cost of pension benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees.

Pension plan assets are valued at fair value, which is determined using current market values.

Expected return on plan assets is calculated based on a five year weighted average of actuarial gains and losses, expected returns on plan assets, and contributions and benefit payments made in the current year.

Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees who were active on the day of the amendment but not yet fully eligible to receive benefits (8.3 years). This represents the period that economic benefits from the amendments are expected to be realized.

The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the market related value of the plan assets is amortized over the average remaining life of retired members of the plan. The average remaining life of retired members was calculated as a weighted average of 22 years.

When the restructuring of a benefit plan results in both a settlement and a curtailment of obligations, the curtailment is accounted for prior to the settlement.

Notes to Financial Statements

Note 2 – Summary of significant accounting policies, continued

b) Defined contribution pension plan
Defined contribution plan costs are recognized as employees render services during the year.

c) Service recognition defined benefit plan
The Corporation provides a service recognition defined benefit plan for its employees. The cost of the plan is determined using the projected benefit method prorated on service.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Translation gains and losses on foreign currency denominated monetary items are taken into income in the current year.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amounts of property, plant and equipment and underlying estimations of useful lives of depreciable assets and capitalization of labour and overhead, the carrying amounts of accounts receivable and underlying provision for bad debts and the carrying amounts of deferred pension costs and underlying actuarial assumptions. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

Note 3 – Reorganization

Effective May 1, 2006, the majority of the operations and net assets of Navigata Communications Partnership, an entity under common control, were integrated with those of the Corporation. Net assets of $3.4 million associated with the Partnership were transferred to the Corporation at net book value. Comparative information has been restated to reflect the financial position, results of operation and cash flows as if the Corporation and the Partnership had been combined since their inception.

Note 4 – Rate regulation

The Corporation's telecommunications and broadcast services are regulated by the CRTC. The CRTC, however, regulates rates for only those telecommunications services which have not been found to be subject to sufficient competition to rely on market forces to protect the interests of customers. For these services, the rate which the Corporation may charge must receive CRTC approval prior to being implemented and may not be set below the cost of the service, calculated according to CRTC costing rules.

Notes to Financial Statements

Note 4 – Rate regulation, continued

The CRTC also regulates the rates for all services that are designed for use by competitors. The CRTC requires rates for many of these services to be based on service costs plus approved mark-ups.

In addition, the CRTC has implemented a price cap framework which limits the Corporation's flexibility in the pricing of some rate regulated services and, each year, may force a rate reduction for these services, with the Corporation having some flexibility on which specific service rates must be decreased. Certain competitor services rates are subject to potential annual changes based on this framework. The current price cap framework expires in May of 2007, with a decision expected in early 2007 regarding the framework to be adopted after that date.

Approximately one third of the Corporation's operating revenues are currently subject to CRTC rate regulation.

Rate regulation does not result in the Corporation selecting accounting policies that would differ from generally accepted accounting principles. However, the CRTC's authority to establish interim rates and set final rates retroactively has resulted in the Corporation recording the following items in the financial statements:

Direct Connect and Access Tandem Services
Direct Connect and Access Tandem are inter-connection services sold to long distance service providers by local exchange carriers. As the Corporation operates as both a long distance service provider and a local exchange carrier, changes to the rates for these services impact both revenues and expenses. On April 27, 2006 the CRTC issued Telecom Decision CRTC 2006-22 and Telecom Decision CRTC 2006-23 approving final rates for these services. Rates were set retroactively to June 1, 2002 for Access Tandem Services and to December 17, 2003 for Direct Connect Services. As a result of these decisions, adjustments were made to previously accrued liabilities to reflect the retroactive application of the final rates which the Corporation charges and the rates which the Corporation pays to other service providers. The adjustment to accrued liabilities had a positive impact to 2006 net income of $2,196,000.

Note 5 – Restructuring charges

During 2006, $55,009,262 (2005 - $40,914,346) was recorded to restructuring charges. The charges relate to phases one and two of a proposed three phase voluntary early retirement program (ERP) with each phase occurring over a two year period. The ERP has been undertaken to reduce operating costs and manage the employee demographic profile in the context of a changing labour market. The first phase began in the fall of 2004 and was completed during 2005. The second phase of the ERP began in 2005 and will be completed in 2007. During 2006, 184 employees (2005 – 170) elected to receive a package that included a cash allowance and immediate pension benefits.

An additional charge of approximately $43 million is expected to be incurred in 2007. These costs are not eligible for recognition at December 31, 2006 and will be expensed as incurred.

Notes to Financial Statements

Note 5 – Restructuring charges, continued

The table below provides a summary of the costs recognized and the liability recorded at December 31:

(Thousands of dollars)	2006	2005 (Note 3)
Balance in accounts payable and accrued liabilities, beginning of year	$8,635	$9,107
Restructuring charges	55,009	40,915
Less:		
Cash payments	12,178	11,721
Special termination benefits costs (Note 16)	43,399	29,666
Balance in accounts payable and accrued liabilities, end of year	$8,067	$8,635

Note 6 – Other items

(Thousands of dollars)	2006	2005 (Note 3)
Recovery of competitive toll implementation costs	$1,803	$790
Interest	760	559
Non-controlling interest	33	641
Other	874	439
	$3,470	$2,429

Note 7 – Interest and related costs

(Thousands of dollars)	2006	2005 (Note 3)
Interest expense	$26,209	$25,485
Less sinking fund earnings	2,084	2,958
	$24,125	$22,527

Notes to Financial Statements

Note 8 – Property, plant and equipment

(Thousands of dollars)	Cost	Accumulated depreciation and amortization	Net book value 2006	Net book value 2005 (Note 3)
Buildings	$174,658	$91,345	$83,313	$81,305
Plant and equipment	2,148,529	1,602,150	546,379	539,893
Office furniture, equipment and leaseholds	149,278	72,503	76,775	71,604
Plant under construction	170,576	-	170,576	105,134
Materials and supplies	16,034	-	16,034	12,211
Land	4,487	-	4,487	4,382
	$2,663,562	$1,765,998	$897,564	$814,529

Depreciation and amortization for the year totalled $141,524,932 (2005 - $138,954,585).

Note 9 – Other assets

(Thousands of dollars)	2006	2005 (Note 3)
Deferred pension costs (Note 16)	$46,569	$53,743
Deferred expenses	7,795	6,975
Financing leases	1,138	1,658
Unamortized discount on long-term debt	791	778
Other	408	614
	$56,701	$63,768

Amortization for the year totalled $207,355 (2005 - $525,431).

Notes to Financial Statements

Note 10 – Long-term debt

(Thousands of dollars)	Years to Maturity	Weighted Average Interest Rate (%)	2006	2005 (Note 3)
Province of Saskatchewan				
Canadian dollar issues (a)	1 - 5	7.61	**$94,376**	$126,974
Canadian dollar issue	14	10.08	**126,600**	126,600
Canadian dollar issues	23	5.60	**35,000**	35,000
			255,976	288,574
Other			**476**	2,956
			256,452	291,530
Less sinking funds (b)			**41,164**	37,213
Total long-term debt			**215,288**	254,317
Less current portion of long-term debt			**15,959**	37,040
			$199,329	$217,277

(a) Long-term debt totalling $34,376,000 is subject to redemption at the option of the issuer on 30 days notice, as outlined in the terms and conditions.

(b) Under conditions attached to a portion of the long-term debt, the Corporation is required to pay annually into sinking funds, administered by the Province of Saskatchewan, one percent of the debt outstanding.

Sinking fund installments and anticipated long-term debt repayments (net of sinking funds) due over the next five years are as follows:

	(Thousands of dollars)
2007	$15,813
2008	22,995
2009	2,216
2010	55,423
2011	1,616

Note 11 – Notes payable

The balance represents amounts due to Holdco which are unsecured and bear interest at the Holdco's borrowing rate of 4.20% (2005 – 3.25%), with no fixed repayment terms.

Notes to Financial Statements

Note 12 – Equity advances

The Corporation's equity financing is in the form of equity advances of $250,000,000 (2005 - $250,000,000) from CIC and $85,572,000 (2005 - $84,572,000) from Holdco.

Note 13 – Commitments and contingencies

Commitments
The future minimum payments under operating leases and contractual obligations for services in each of the next five years are as follows:

(Thousands of dollars)	(Note 3)
2007	$34,790
2008	35,533
2009	23,660
2010	21,689
2011	11,360

The above payments include $21,100,000 for leases with related parties.

Contingencies
On August 9, 2004, a proceeding under the Class Actions Act (Saskatchewan) was brought against several Canadian wireless and cellular service providers, including the Corporation and Saskatchewan Telecommunications. The proceeding involves allegations by wireless customers of breach of contract, misrepresentation, negligence, collusion, unjust enrichment and breach of statutory obligations concerning system administration fees. The plaintiffs seek unquantified damages from the defendant wireless communications service providers. Similar proceedings have been filed by, or on behalf of, plaintiffs' counsel in other provincial jurisdictions. On July 18, 2006, the Saskatchewan court declined to certify the action as a class action, but granted the plaintiffs leave to renew their application in order to further address certain statutory requirements respecting class actions. The Corporation believes that it has strong defenses to the allegations. Should the ultimate resolution of these actions differ from management's assessments and assumptions, a material adjustment to the Corporation's financial position or results of operations could result.

In the normal course of operations, the Corporation becomes involved in various claims and litigation. While the final outcome with respect to claims and litigation pending at December 31, 2006 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Corporation's financial position or results of operations.

Deferral Account
The current price cap framework, which expires in May of 2007, included a mechanism known as the "deferral account". This mechanism was used to mitigate potential adverse effects on competition in the local market which the CRTC felt might be caused by mandated reductions in the price of local residential service. Rather than lowering rates, as the price cap formula would otherwise have required, the CRTC directed the Corporation to keep a record of the amount of revenue which would otherwise have been lost. Various adjustments to this amount were allowed or required as a result of specific CRTC policy directives.

Notes to Financial Statements

Note 13 – Commitments and contingencies, continued

Since the current price cap framework is about to expire, the CRTC, effective June, 2006, required the Corporation to implement decreases in the rates charged for residential local service. This action halted further growth in the deferral account.

Any remaining amounts in the deferral account must be used to fund initiatives such as service improvements or customer rebates. The CRTC is currently conducting a public proceeding which will determine the specific uses of the deferral account. In addition, there are two cases before the Federal Court of Appeal which may impact the final disposition of these amounts.

The Corporation estimates the accumulated commitment to the deferral account to be $1.5 million, as of December 31, 2006. A liability, should one arise, will be charged to income from operations or property, plant and equipment, as appropriate.

Note 14 – Additional financial information

a) Balance sheet

(Thousands of dollars)	2006	2005 (Note 3)
Accounts receivable		
Customer accounts receivable	$71,602	$75,931
Accrued receivables - customer	5,139	5,330
Allowance for doubtful accounts	(4,240)	(5,815)
	72,501	75,446
High cost serving area subsidy	5,894	5,998
Other	11,241	12,329
	$89,636	$93,773
Prepaid expenses		
Prepaid expenses	$4,971	$3,686
Deferred service connection charges	5,222	3,433
	$10,193	$7,119
Accounts payable and accrued liabilities		
Trade accounts payable and accrued liabilities	$74,003	$74,634
Payroll and other employee-related liabilities	54,186	53,126
Taxes payable	4,717	6,229
Interest payable	3,229	3,954
Other	86	72
	$136,221	$138,015

Notes to Financial Statements

Note 14 – Additional financial information, continued

(Thousands of dollars)	2006	2005 (Note 3)
Services billed in advance		
Advance billings	$31,227	$29,430
Deferred service connection charges	6,784	4,520
Customer deposits	2,663	2,508
	$40,674	$36,458

b) Supplementary cash flow information

(Thousands of dollars)	2006	2005 (Note 3)
Net change in non-cash working capital		
Accounts receivable	$6,140	$(43,422)
Inventories	(386)	526
Prepaid expenses	(3,895)	(6,206)
Accounts payable and accrued liabilities	(2,910)	(10,247)
Services billed in advance	4,216	4,412
Deferred revenues	835	4,632
	$4,000	$(50,305)
Interest paid	$24,268	$24,815

Note 15 – Financial instruments

Credit risk

The Corporation has a large and diverse customer base that minimizes the concentration of credit risk.

Currency exposure

The Corporation uses a combination of derivative financial instruments to manage foreign exchange risk exposures. The Corporation does not actively trade derivative financial instruments. At December 31, 2006, there were no derivative financial instruments outstanding.

Fair value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics such as risk, principal and remaining maturities. Fair values are estimated using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-orientated information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

Notes to Financial Statements

Note 15 – Financial instruments, continued

At year end, the carrying value of all financial instruments approximates fair value with the following exceptions stated in thousands of dollars:

	2006		2005	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Equity in sinking funds	**$41,164**	**$41,687**	$37,213	$38,219
Long-term debt, Province of Saskatchewan	**$255,976**	**$340,503**	$288,574	$383,745

Note 16 – Employee future benefits

The Corporation has a defined benefit pension plan (a), a defined contribution pension plan (b), and a service recognition defined benefit plan (c). The defined benefit pension plan for certain employees has been closed to new membership since 1977.

a) Defined benefit pension plan

The defined benefit pension plan is registered under *The Pension and Benefit Act, 1992*, Saskatchewan, the *Income Tax Act*, Canada and is regulated by the Saskatchewan Financial Services Commission – Pension Division. The Corporation is responsible for adequately funding the defined benefit pension plan. Contributions are determined by actuarial valuations. The contributions reflect actuarial assumptions about future investment returns, salary projections and future service benefits. A valuation is performed at least every 3 years in accordance with *The Pension and Benefit Act, 1992*, Saskatchewan, to determine the actuarial present value of the accrued pension benefit. The latest valuation is dated December 31, 2003 and was performed as of August 31, 2004.

The defined benefit pension plan provides a full pension at age 65, at age 60 with at least 20 years of service or upon completion of 35 years of service. The pension is calculated to be 2% times the average of the highest three years of pensionable earnings times the number of years of service up to a maximum of 35 years of service. A reduced pension may be opted for if certain age and years of service criteria are met. Pensions are subject to annual indexing with the Consumer Price Index up to a maximum of 2% per year.

For employees that retire before the age of 65 but meet other age plus service requirement either a reduced or unreduced pension may be payable.

The introduction of the ERP resulted in a curtailment to the defined benefit pension plan. The impact of the curtailment was to reduce the accrued benefit obligation by $26,596,139 (2005 - $19,108,433).

Notes to Financial Statements

Note 16 – Employee future benefits, continued

Key assumptions used as inputs to the actuarial calculations are:

	2006	2005
Discount rate	**5.15%**	5.25%
Expected return on plan assets	**6.75%**	7.00%
Inflation rate	**2.50%**	2.50%
Expected salary increase	**3.00%**	3.00%
Post-retirement index (not to exceed 2%)	**100% of CPI**	100% of CPI

Pension plan assets

The table below shows the allocation of pension plan assets:

Asset category	2006	2005
Equity securities	**55.5%**	53.1%
Bonds	**29.0%**	30.4%
Short-term investments (treasury bills, notes and commercial paper)	**8.3%**	9.8%
Real estate	**7.2%**	6.7%
	100.0%	100.0%

The table below shows the components of the defined pension plan cost:

(Thousands of dollars)	2006	2005 (Note 3)
Current service cost – defined benefit plan	**$(7,480)**	$(7,839)
Interest cost	**(52,241)**	(51,879)
Expected return on pension plan assets	**59,455**	57,429
Special termination benefits costs	**(43,399)**	(29,666)
Amortization of net transitional asset	**11,651**	11,677
Amortization of past service costs	**(4,220)**	(4,957)
Amortization of actuarial loss	**(6,307)**	(13,708)
Impact of settlement	**(2,133)**	-
Net pension cost	**$(44,674)**	$(38,943)

Effective April 5, 2006, the Corporation received approval from the Office of the Superintendent of Financial Institutions to settle the Navigata Communications Inc. Pension Plan, governed by the Navigata Communications Partnership. During the year, the Corporation has funded $2,610,204 and incurred costs of $2,133,034 related to the settlement.

The accrued benefit obligation, plan assets and deferred pension cost tables below show the change in the defined benefit pension plan and the change in the fair value of the plan's assets during the year and the status of the plan as at December 31, 2006 and 2005.

Notes to Financial Statements

Note 16 – Employee future benefits, continued

Accrued benefit obligation (Thousands of dollars)	2006	2005 (Note 3)
Accrued benefit obligation, beginning of year	$1,029,502	$900,521
Current service cost	9,124	9,951
Curtailment gain	(26,596)	(19,108)
Interest cost	52,548	51,879
Benefits paid	(64,656)	(48,186)
Impact due to change in discount rate	6,047	104,779
Special termination benefits costs	43,399	29,666
Accrued benefit obligation, end of year	$1,049,368	$1,029,502

Plan assets (Thousands of dollars)	2006	2005 (Note 3)
Fair value of plan assets, beginning of year	$917,733	$815,063
Actual return on plan assets	114,954	111,620
Employer contributions	37,977	37,123
Employee contributions	1,645	2,113
Benefits paid	(64,656)	(48,186)
Fair value of plan assets, end of year	$1,007,653	$917,733

Deferred pension costs (Thousands of dollars)	2006	2005 (Note 3)
Funded status – deficit	$(41,715)	$(111,769)
Unamortized transitional asset	(27,147)	(39,118)
Unamortized past service costs	8,404	12,624
Unamortized net actuarial losses	107,027	191,728
Deferred pension costs	$46,569	$53,465
Comprised of:		
Deferred pension costs	$46,569	$53,743
Deferred pension liability	-	(278)
	$46,569	$53,465

Notes to Financial Statements

Note 16 – Employee future benefits, continued

b) Defined contribution pension plan

The defined contribution pension plan requires the Corporation to contribute 6% of employees' pensionable earnings and employees to contribute a minimum of 4% of pensionable earnings. The total cost for the defined contribution plan is equal to the Corporation's required contribution. The Corporation's 2006 pension cost and employer contributions for the Public Employees Pension Plan are $12,505,702 (2005 - $11,736,483).

c) Service recognition defined benefit plan

The service recognition defined benefit program provided a retiring allowance of two days salary per year of service which is payable on retirement. Based on the Collective Agreement between the Corporation and the Communications, Electrical and Paperworkers Union of Canada, ratified April 22, 2006, the service recognition defined benefit program was curtailed effective March 19, 2005. Employees will no longer earn two days pay per year of service, however will continue to earn incremental pay increases for the earned service at March 19, 2005 until retirement. Key assumptions used as inputs to the actuarial calculations are:

	2006	2005
Discount rate	**4.60%**	5.20%
Expected salary increase	**3.00%**	3.00%
Estimated average remaining employee service life	**14.1 years**	14.1 years

Current year benefit cost

	2006	2005 (Thousands of dollars)
Defined benefit service cost	**$1,333**	$2,608
Impact of curtailment	**-**	7,298
Defined benefit service cost	**$1,333**	$9,906

Accrued benefit obligation	**2006**	2005 (Thousands of dollars)
Accrued benefit liability	**$19,356**	$20,897

Note 17 – Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to CIC by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Notes to Financial Statements

Note 17 – Related party transactions, continued

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Other transactions in the normal course of operations are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. These transactions and amounts outstanding at year-end are as follows:

(Thousands of dollars)	2006	2005 (Note 3)
Operating revenues	**$56,681**	$65,150
Operating expenses	**48,302**	48,217
Other items	**13**	49
Accounts receivable	**4,926**	5,446
Property, plant and equipment expenditures	**3,468**	3,434
Accounts payable and accrued liabilities	**12,923**	12,525

The Corporation participates in customer solutions which may involve delivery of the Corporation's services in conjunction with those of related parties. Participation in these customer solutions is done at no cost to the Corporation as agreed to by the related parties.

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to (from) related parties and the terms of settlement are described separately in these financial statements and notes thereto.

Note 18 – Comparative figures

Certain of the 2005 figures have been reclassified to conform to the current year's presentation.